

Independent Auditors' Report

Mr. Martin J. Benison, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts ("Commonwealth"), as of and for the year ended June 30, 2004, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit any of the financial statements of the institutions of higher education nor their blended component units, which represent 87.6% percent and 41.8% percent, respectively, of the assets and revenues of the Business-Type Activities within the Statement of Net Assets and Statement of Activities of the Government-wide Financial Statements. We did not audit 98.7% and 96.7% respectively of the total assets and total revenues of the Commonwealth's component units (as presented in the Statement of Net Assets and the Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of the Massachusetts State Lottery Commission, which reflect .3% and 13.7% of the assets and the revenues, respectively of the Governmental funds (as presented in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Net Assets of the Governmental Fund Financial Statements) and .1% and 13.6% of the total assets and total revenues, respectively, of the Governmental Activities (as presented in the Statement of Net Assets and Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of the Owner Controlled Insurance Program, which represent 1.7% and less than .1% of the assets and the revenues, respectively, of the Governmental funds (as presented in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Net Assets of the Governmental Fund Financial Statements) and .7% and less than .1% of the total assets and total revenues, respectively, of the Governmental Activities (as presented in the Statement of Net Assets and Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of either the Pension Reserve Investment Trust or the Massachusetts Municipal Depository Trust, which represent 88.1% and 100% of the total assets and total additions, respectively, of the Fiduciary Fund Types (as presented in the Fiduciary Fund Financial Statements). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the entities not audited by us included in the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in fiscal year 2004 the Commonwealth adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 39, *Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14*. This standard modifies the criteria for defining component units of a governmental entity. As a result of the implementation of this standard, 26 foundations related to the State colleges and universities have been added as component units. Beginning net assets and fund balances have been restated to account for the implementation of this accounting standard.

As also discussed in Note 1 to the financial statements, the Commonwealth adopted the provisions of GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues* in fiscal year 2004. This bulletin clarifies revenue recognition and receivables disclosure with regard to the Master Settlement Agreement with the tobacco industry. The Commonwealth recorded revenue and a receivable for approximately \$126,766,000.

The Management’s Discussion and Analysis, on pages 17 through 29, as well as the Budgetary Comparison Schedule – All Major Funds and notes thereto, on pages 120 through 124, are not a required part of the basic financial statements but are supplementary information required by the GASB. Such information is the responsibility of management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The Combined Balance Sheet – Non-Major Governmental Funds, the Combined Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds, the Combining Balance Sheet – Non-Major Special Revenue Funds, the Combining Statement of Revenues, Expenditures and Changes in Net Assets – Non-Major Special Revenue Funds, the Combining Balance Sheet – Non-Major Capital Projects Funds, and the Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Capital Projects Funds, presented as Other Supplementary Information, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth's management. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, based on our audit and the reports of other auditors, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The letter of transmittal and the information provided in the statistical section of this report are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

December 22, 2004